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15 September 2022

Dear Sir/Madam,

Consultation on "Exposure of the IAASB's 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 a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs)" (the Consultation Paper)

KPMG Australia (KPMG) welcomes the opportunity to comment on the Auditing and Assurance Standards Board's (AUASB) Consultation Paper.

KPMG is supportive of the IAASB's proposed narrow scope amendments to ISA 260 (revised), as a result of the revisions to the IESBA Code, that require a firm to publicly disclose when a firm has applied the independence requirements for public interest entities (PIEs).

KPMG expects consistency with the APESB ED process and support the proposed wording of the APESB ED R400.20 in relation to public disclosure of the application of independence requirements for PIE's, which provides optionality for public disclosure at the choice of the firm.

Please find in Attachment A below answers to the specific questions raised in the Consultation Paper. While KPMG agrees with some of the proposals in this Consultation Paper, our responses outline specific concerns with others that we hope the AUASB will address.

Please contact Karen Tanner at karentanner@kpmg.com.au or myself at cralph@kpmg.com.au if you wish to discuss any of the issues raised in this letter.

Yours sincerely,

Carolyn Ralph
Audit Assurance & Risk
Partner

Attachment A: Request for Specific Comments

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Audits of Financial Statements

1. *Do you agree that the auditor's report is an 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 the independence requirements for PIEs in the IESBA Code?*

KPMG considers the inclusion of such a statement in the audit report increases the risk of confusion by users, which outweighs the benefits of its intent.

KPMG considers that disclosure limited to the treatment of the audit client (for independence purposes) as a PIE in the auditor's report without proper context and explanation, would be of limited value to the users of the financial statements and unlikely to increase the level of confidence in the audit of the financial statements. We note that the 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) and that audits of non-PIEs are of lesser quality or provide lower assurance than PIE audits.

KPMG is especially concerned that such disclosure could have a detrimental effect in the confidence in audits that are conducted for non-PIE entities and an adverse effect on public confidence in non-PIE audits. This would not be in the public interest and potentially exacerbate the audit expectation gap.

We consider this risk to be amplified where the differential between PIE and non-PIE relates only to the credentials of the auditor conducting the work, i.e., their ability to state *independence* in accordance with the rules, with no relationship or context to the breadth and depth of the conduct of the audit in the approach and testing rigour of the audit itself. We see a real risk that users of non-PIE audit reports will translate this differential to be the audit itself is less-than PIEs. This may have unacceptable negative impacts to the role of audits across our economy.

KPMG acknowledge the auditor's report is a client specific document available for users to make decisions at the time of reading the financial statements and associated audit report. We also acknowledge that other alternates for public disclosure when the auditor has applied differential independence requirements are less obvious and may not exhibit the same time relevance. However, as outlined in our response to Q3, we consider these alternates to reduce the risk of confusion and dilution of the audit product for non-PIEs, through reducing the direct proximity of the differential requirements, i.e., out of the audit report itself. Each audit report therefore can stand on its own without a reader needing to second guess or research to understand why one audit report reads differently to another for what they perceive should have the same standard of audit conducted.

Any attempts to address such confusion by adding further information to the disclosure statement may disproportionately lengthen the auditor's report. KPMG is aware of recent academic studies which discourage adding length to the audit report, in particular more boilerplate information which has the potential to obscure important communications. We understand results of these studies, which tested the impact of including additional boilerplate content, evidenced reduction in the readability of the auditor's 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.

KPMG's position on the above is predicated on our Australian Accounting Professional & Ethical Standards Board (APESB) remaining *agnostic* or providing optionality for the mechanism of publicly disclosing when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of financial statements. We consider reasonable alternatives to be available in Australian rather than inclusion in the auditor's report.

2. *If the auditor's report is to be used as a mechanism for publicly disclosing the independence requirements complied with, do you support:*

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

Acknowledging KPMG do not support the auditor's report as the appropriate mechanism for disclosure of this matter, if the IAASB proceeds with the proposed amendments, KPMG supports the IAASB's conditional requirement approach to disclosure in the audit report as part of its proposed revisions to ISA 700 (Revised). We highlight the wording in the proposed paragraphs, when viewed through the lens of their impact in Australia, are difficult to understand and act upon on their own. When read in combination with the current proposed APESB ED, the impact was clearer, and we agree with the outcome of the conditional requirement. If the AUASB are to apply such provisions, we highly recommend clarifying and simplifying the language for application in Australia.

   b) *the IAASB's proposed revisions in the ED to ISA 260 (Revised)?*

Acknowledging KPMG do not support the auditor's report as the appropriate mechanism for disclosure of this matter, if the IAASB proceeds with the proposed amendments, we are supportive of the proposed revisions in the ED to ISA 260 (Revised).

3. *What other mechanism(s) could be used for publicly disclosing when a firm has applied the independence requirements for PIEs as required by paragraph R400.20 of the IESBA Code?*

KPMG supports public disclosure when a firm has applied the independence requirements for PIEs in a form that does not detract from the critical communications in each client-specific audit report, minimises potential confusion of a reader leading to uncertainty, and does not dilute the audit product for non-PIEs. We consider a firm's transparency report or the website of the firm to be reasonable alternatives to manage these risks while addressing the IESBA and proposed APESB intentions. KPMG envisage this would involve maintaining a listing of the clients treated as PIE on the website or the firm's transparency report which would be updated on an annual basis. KPMG acknowledges there may be concerns regarding the timeliness of disclosures for PIEs, sharing which clients applied the differential independence requirements. However, we note these concerns would only be applicable for first year audits of PIEs as generally once assessed as a PIE this assessment does not change, assuming no change to the underlying circumstances of the entity. This could further be reduced with establishing an annual update time period coinciding with the majority of Australian PIE year ends and the associated audit timing, consistent with the intention of the Corporations Act 2001 deadline for transparency reporting, being 4 months after 30 June each year.

KPMG are supportive of defaulting to the audit report as an alternate mechanism for the public disclosure of when a firm has applied the independence requirements for PIEs in the event disclosure in the firm's transparency report or firm's website is not practical. However, KPMG supports providing optionality for public disclosure at the choice of the firm.

Transparency About the Relevant Ethical Requirements for Independence for Certain Entities Applied in Performing Reviews of Financial Statements

4. *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?*

KPMG considers 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 a review engagement, it will likely be in accordance with ISRE 2410 (Australian standard equivalent ASRE 2410) rather than ISRE 2400 (Revised).

This notwithstanding, KPMG are not supportive of the public disclosure in the auditor's report. 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), KPMG considers that the appropriate and more relevant standard to update is ISRE 2410.

As ISRE 2410 has not been updated since 2006, we encourage the IAASB to add a project to its work plan to update it. At the same time, KPMG recommends that this includes amendments to address transparency about requirements for independence in a consistent manner between audits and reviews.

Australian standard equivalent ASRE 2410 was updated in 2020 following the auditor reporting project. It would be reasonable and consistent for ASRE 2410 to also be updated 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. This would ensure ASRE 2410 continues to remain an 'up to date' standard.

5. *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** of the IAASB's Explanatory Memorandum?*

Yes, notwithstanding KPMG are not supportive of the public disclosure in the auditor's report. If the IAASB update the audit report requirements, the review report requirements should be consistent. However, refer above as to relevance of updating ISRE 2400 as opposed to ISRE 2410.

Matter for IESBA Consideration

6. *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.*

Yes – ASRE 2400.86 (j) requires a reference in the auditor's report to the assurance practitioner's obligation under this ASRE to comply with relevant ethical requirements;

> ASRE 2410.35(c) requires the Basis for Conclusions section of the interim review report to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial report, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the relevant ethical requirements applicable within Australia.

Request for General Comments

The AUASB is also seeking comments on the following matter:

7. *Effective Date - Given the need to align the effective date with IESBA, do you support the IAASB proposal that the amendments to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after 15 December 2024 as explained in paragraph 26 of the IAASB's Explanatory Memorandum?*

KPMG recommends that the effective date be extended to allow timing for the AUASB in the Australian jurisdiction to consider the complication of applying the conditional requirement outlined in 2(a) and its interaction with the Corporations Act requirements.

The AUASB Consultation Paper does not consider the impact of applying the Corporations Act to the proposed amendments. As such, KPMG considers that there is an unanswered question in this regard which should be considered.