PIE Rollout – Update and IAASB Coordination

OBJECTIVE OF THE AGENDA

1. To consider an update from the IESBA PIE Working Group¹ on:
   - Track 1 of the International Auditing and Assurance Standards Board’s (IAASB) Listed Entity and Public Interest Entity project (IAASB PIE Project).
   - Jurisdictional PIE definitions database.

IAASB PIE PROJECT

Summary

2. In June 2023, the IAASB PIE Task Force will seek the IAASB’s approval of the narrow scope amendments to ISA 700 (Revised)² and ISA 260 (Revised)³ as a result of the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions.

3. The IESBA PIE Working Group is of the view that:
   - The IAASB PIE Task Force’s final proposed text in ISA 700 (Revised), effectively operationalizes the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.
   - There are no other matters from the perspective of operationalization of the transparency requirement that need to be raised with the IAASB.

History

4. In March 2022, the IAASB approved a project proposal to undertake a narrow-scope maintenance of standards project on the topic of “listed entity and PIE.” The project proposal sets out the IAASB’s

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¹ The Working Group consists of:
   - Andrew Mintzer, Chair, IESBA Member
   - Richard Huesken, IESBA Member
   - Sung-Nam Kim, IESBA Member
   - Felicien Muvunyi, IESBA Member
   - Luigi Nisoli, IESBA Member
   - Yaoshu Wu, IESBA Member

² International Standard on Auditing (ISA) 700 (Revised), Forming an Opinion and Reporting on Financial Statements

³ ISA 260 (Revised), Communication with Those Charged with Governance
actions to respond to the IESBA PIE Revisions. This project is being progressed on two separate tracks (Track 1 and Track 2).

5. Track 1 includes proposed actions to operationalize IESBA’s transparency requirement by addressing the following project objective that supports the public interest:

Determine whether the auditor’s report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements.

6. In June 2022, the IAASB unanimously approved an exposure draft: *Proposed Narrow Scope Amendments to ISA 700 (Revised) and 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 PIEs* (IAASB ED).

7. At the June 2022 IESBA meeting, the Board expressed support for the IAASB PIE Task Force’s proposed revisions to ISA 700 (Revised) to operationalize the new transparency requirement set out in paragraph R400.20 of the *IESBA PIE Revisions*.

8. The IAASB ED also sought respondents’ feedback on whether the International Standard on Review Engagements (ISRE) 2400 (Revised)⁵ should be revised to address transparency about the relevant ethical requirements for independence applied for review engagements for certain entities and, if so, whether the IAASB should use an approach consistent with the one being proposed for the narrow-scope amendments in ISA 700 (Revised).

9. Following closure of its comment period, the IAASB received a total of 38 comment letters.

10. In March 2023, the IAASB:

- Considered the IAASB PIE Task Force’s full analysis of the respondents’ feedback to the IAASB ED and its views and recommendations in response to the feedback. For a detailed analysis of the responses and the full detail of the IAASB PIE Task Force’s proposals, please refer to the materials under Agenda Item 7 of the IAASB March 2023 meeting.

- Broadly supported the PIE Task Force proposals and provided specific comments for the topics to be considered further in the development of the final pronouncement for Track 1. The draft March 2023 IAASB meeting minutes are available in Agenda Item 5 on the IAASB June 2023 meeting webpage.

11. In June 2023, the IAASB PIE Task Force will seek the IAASB’s approval of the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) as a result of the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions.

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⁴ As explained at the IESBA February 2023 meeting, in December 2022, the IAASB discussed the IAASB PIE Task Force’s initial views and recommendations related to Track 2 of its narrow scope project. It is envisioned that the work on Track 2 will continue in Q1 2024.

⁵ ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*
Transparency Regarding Audit Engagements

Proposed Amendments to ISA 700 (Revised)

12. As explained in the explanatory memorandum (EM) of the IAASB ED:
   - The proposed revisions to paragraph 28(c) of ISA 700 (Revised) in the ED added a new conditional element that applies when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied. If the condition is met, the auditor is required to indicate in the auditor’s report that the relevant ethical requirements for independence for those entities were applied.
   - The ED also included a proposed new application material (A35A) that supports the application of the conditional element of the requirement in paragraph 28(c) of ISA 700 (Revised).

13. At its March 2023 meeting, the IAASB supported the IAASB PIE Task Force’s view that the auditor’s report provides a clear mechanism to operationalize the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions. Amongst other matters, the IAASB supported the IAASB PIE Task Force’s recommendation to maintain a conditional approach on the basis that such an approach is an appropriately proportionate response for a global standard, taking into account the majority support received from respondents to the IAASB ED. The IAASB also directed the IAASB PIE Task Force to consider, amongst other matters, a number of refinement suggestions to proposed revisions to ISA 700 (Revised).

14. Following consideration of the comments from the IAASB, the IAASB PIE Task Force is proposing further refinements to the proposed text in ISA 700 (Revised) for consideration by the IAASB in June 2023.

15. Upon review of the IAASB final proposed text in paragraphs 28(c), 50 and A35A of ISA 700 (Revised), the IESBA PIE Working Group is of the view that:
   - The proposed text in paragraphs 28(c), 50 and A35A of ISA 700 (Revised) effectively operationalizes the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.
   - There are no other matters from the perspective of operationalization of the transparency requirement that need to be raised with the IAASB.

16. For further information:
   - See Appendix 1 for an extract of the clean version of the final proposed text in ISA 700 (Revised).
   - See Appendix 2 for a summary of the key revisions to the IAASB ED.
   - Refer to Agenda Items 5A, 5B and 5C on the IAASB June 2023 meeting webpage for the IAASB PIE Task Force’s final proposed texts in three versions: clean, mark-up from the IAASB ED and mark-up from the IAASB March 2023 meeting.

17. At the March 2023 IESBA meeting, IESBA PIE Working Group Chair informed the Board that concerns were raised by respondents to the IAASB ED about compliance with paragraph R400.20 of the Code if an auditor’s report only has limited distribution. He further noted that these respondents have provided suggestions on how IESBA might address these concerns which will be considered.
by the Working Group following the IAASB approval of the final text under Track 1 of the IAASB PIE project.

**Proposed Amendments to ISA 260 (Revised)**

18. The IAASB ED explained that revisions to ISA 260 (Revised) may be necessary to increase transparency with those charged with governance that differential independence requirements for certain entities have been applied. Accordingly, IAASB proposed new application material to paragraph A29 of ISA 260 (Revised).

19. At its March 2023 meeting, the Board directed the PIE TF to explore how the proposals in ISA 260 (Revised) could be strengthened as part of Track 1 of the IAASB PIE project instead of deferring the amendments to Track 2. Amongst other matters, a suggestion was made to include an explicit requirement to increase transparency to TCWG about the independence requirements applied, including whether independence requirements for certain entities were applied.

20. Taking into account the comments from the IAASB, the PIE TF is proposing to:
   - Add a new general requirement in paragraph 16A of ISA 260 (Revised) that applies to audits of all entities to address explicit communication with TCWG about the independence requirements applied for the audit engagement, including if applicable in the circumstances, whether independence requirements for certain entities specified in the relevant ethical requirements were applied.
   - Expand the application material in paragraph A29 of ISA 260 (Revised) to support clarity and implementability by highlighting the scenarios which could arise within the relevant ethical requirements and linking these to the IESBA Code by way of example.

21. Upon review of the IAASB final proposed text in paragraphs 16A and A29 of ISA 260 (Revised), the IESBA PIE Working Group is of the view that:
   - There are no other matters from the perspective of operationalization of the transparency requirement that need to be raised with the IAASB.

22. For further information:
   - See Appendix 1 for an extract of the clean version of the final proposed text in ISA 260 (Revised).
   - See Appendix 2 for a summary of the key revisions to the IAASB ED.
   - Refer to [Agenda Items 5A, 5B and 5C](#) on the IAASB June 2023 meeting webpage for the IAASB PIE Task Force’s final proposed texts in three versions: clean, mark-up from the IAASB ED and mark-up from the IAASB March 2023 meeting.

**Effective Date**

23. The IAASB ED included a proposal that the revisions to ISA 700 (Revised) and ISA 260 (Revised) become effective for audits of financial statements for periods beginning on or after December 15, 2024, to align with the effective date of the IESBA PIE Revisions.

24. Taking into account support received by respondents to the ED, the PIE Task Force believes that the proposed effective date is sufficient to allow jurisdictions for translation of the final text, for national
adoption processes to occur, and for practitioners to update templates and associated internal materials.

25. The IESBA PIE Working Group is supportive of the IAASB PIE Task Force’s proposed effective date as it aligns with that of the IESBA PIE Revisions.

Transparency Regarding Review Engagements

26. The IAASB ED sought views from respondents on:

- Whether the IAASB should consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for review engagements for certain entities, such as for PIEs in the IESBA Code. Overall, there were mixed views from respondents; and
- Whether they supported a consistent approach to the revisions for ISRE 2400 (Revised) with the proposals for ISA 700 (Revised) (i.e., a conditional requirement in the practitioner’s report).

27. On February 10, 2023, the IESBA decided to retain the scope of the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions, thus retaining its applicability to both audit and review engagements.

28. At the March 2023 IAASB meeting, in light of the IESBA’s decision not to pursue changing the scope of the transparency requirement in paragraph R400.20 of the IESBA Code, the IAASB was supportive of its Task Force’s proposal to consider revisions of ISRE 2400 (Revised) as part of Track 2 of its PIE project.

29. The IESBA PIE Working Group is supportive of the IAASB’s decision to postpone its work on the revisions to ISRE 2400 (Revised).

Next Steps

30. Due to various circumstances affecting the planning for the IAASB’s forward agenda, the IAASB PIE Task Force will continue its work on Track 2 in Q1 2024. Consequently, it is anticipated that the exposure draft for Track 2 will be presented to the IAASB for approval in June 2024. The expected approval of the final pronouncement would be June 2025. Subject to feedback from stakeholders, the IAASB PIE Task Force is of the view that an effective date of December 2026 may be possible.

JURISDICTIONAL DATABASE

31. In April 2023, Staff released an updated database of PIE definitions by jurisdictions as one of the IESBA PIE rollout activities to further support the adoption and implementation of the IESBA PIE revisions. This database covers 78 jurisdictions in the Americas, Europe, Africa, Asia, and Oceania.

32. It is anticipated that the jurisdictional PIE database will be used as a resource by regulators, national standard setters, and other relevant bodies in developing or revising their definitions of PIE at the local level based on the IESBA’s PIE definition.
ACTION REQUESTED

33. IESBA members are asked:

   (a) If they agree with the IESBA PIE Working Group’s views with respect to Track 1 of the IAASB PIE project as set out in paragraph 5 of this paper; and

   (c) To share views on the updates provided in this paper.
Appendix 1

Clean Version of IAASB PIE Task Force Final Proposed Changes to ISA 700 (Revised) and ISA 260 (Revised)

The following is an extract of the clean version of final proposed text in ISA 700 set out in Agenda Item 5-A of the IAASB June 2023 meeting.

ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements

Requirements

Auditor’s Report

Auditor’s Report for Audits Conducted in Accordance with International Standards on Auditing

Basis for Opinion

28. The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: Para. A32)

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.

(i) The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code); (Ref: Para. A34–A35, A36–A37)

(ii) If the relevant ethical requirements require the auditor to publicly disclose when the auditor applied the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A35A)

Auditor’s Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor’s report, the auditor’s report shall refer to International Standards on Auditing
only if the auditor’s report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)

(a) …

(e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements.

(i) The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

(ii) If the relevant ethical requirements require the auditor to publicly disclose when the auditor applied the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities.

(f) …

Application and Other Explanatory Material

…

Auditor’s Report (Ref: Para.20)

…

Basis for Opinion (Ref: Para. 28)

…

Relevant ethical requirements (Ref: Para. 28(c))

…

A35A. Relevant ethical requirements may:

- Establish certain independence requirements that are applicable only to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in the IESBA Code. Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply such independence requirements to audits of financial statements of entities other than those entities specified in the relevant ethical requirements.

- Require the auditor to publicly disclose when the auditor applied the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity. 6 ISA 260 (Revised) sets out requirements and guidance about the auditor’s communication with those

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6 IESBA Code, paragraphs R400.20-R400.21
The following is an extract of the clean version of final proposed text in ISA 260 set out in Agenda Item 5-C of the IAASB June 2023 meeting.

ISA 260 (Revised), Communication with Those Charged with Governance

Requirements

Matters to Be Communicated

Auditor Independence

16A. The auditor shall communicate with those charged with governance the independence requirements the auditor applies for the audit engagement, including, if applicable in the circumstances, the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements. (Ref: Para. A29)

17. …

Application and Other Explanatory Material

Matters to Be Communicated

Auditor Independence (Ref: Para. 16A–17)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements. Relevant ethical requirements may:

- Establish certain independence requirements that are applicable only to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code). If applicable in the circumstances of the audit engagement, this ISA requires the auditor to

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7 ISA 260 (Revised), paragraph 16A and A29
8 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, paragraph 14
communicate with those charged with governance that the auditor applies such independence requirements.

- Require the auditor to publicly disclose when the auditor applied the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements.\(^9\) ISA 700 (Revised) addresses the requirements for the auditor’s report relating to the auditor’s independence and the relevant ethical requirements the auditor applied.\(^10\)

- Require or encourage the auditor to determine whether it is appropriate to apply the independence requirements for audits of financial statements of certain entities specified in the relevant ethical requirements to audits of financial statements of entities other than those entities.\(^11\) If this is the case and the auditor is required to publicly disclose when the auditor applied such independence requirements, the auditor may encourage management or those charged with governance to disclose additional information to address any risk of misunderstanding of the nature of the entity (e.g., when the entity is not by classification a public interest entity).

\(^9\) See, for example, the public disclosure requirements in the IESBA Code, paragraphs R400.20-R400.21.

\(^10\) ISA 700 (Revised), paragraph 28(c)

\(^11\) See, for example, encouragement in the application material in the IESBA Code, paragraph 400.19 A1.
Key Revisions to the IAASB ED<sup>12</sup>

The following summary is from Agenda Items 5A on the IAASB June 2023 meeting webpage.

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<thead>
<tr>
<th>Ref. Para.</th>
<th>Key Revision to the ED</th>
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| ISA 700 (Revised), Paragraph 28(c) | • The term “differential” was removed from the requirement to address concerns that this term is not a commonly understood term that may cause misunderstanding, including in terms of translation.  
• To explain the use of the phrase “certain entities” a clarification was added that those entities are specified by the relevant ethical requirements (such as PIEs in the IESBA Code).  
• To improve the understandability of the conditional element in the requirement, the paragraph was separated into two sub-paragraphs and the conditional phrase was simplified. |
| ISA 700 (Revised), Paragraph 50(e) | • The requirement for an auditor’s report in accordance with law or regulation was aligned to be consistent with the proposed revisions to paragraph 28(c) of ISA 700 (Revised).  
• The revision was necessary to facilitate that an auditor’s report as contemplated in paragraph 50 of ISA 700 (Revised) can refer to “International Standards on Auditing” and to avoid any discrepancy in terms of the minimum elements of an auditor’s report. |
| ISA 260 (Revised), Paragraph 16A | • In response to stakeholder feedback, an explicit requirement was included to address transparency with TCWG about the independence requirements for certain entities applied. |

<sup>12</sup> Proposed Narrow Scope Amendments to ISA 700 (Revised)<sup>12</sup> and ISA 260 (Revised)<sup>12</sup> 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 PIEs